

MEXICO

Following a slowdown in the first half of 2005 due to weaker foreign demand, growth is expected to pick up after mid year, underpinned by the strengthening of export markets and increased public investment, fuelled by high oil revenues. Headline and core inflation rates have come down to the central bank's target and are expected to continue a gradual decline. Employment is growing at a relatively strong pace.

The central bank eased its stance in the second half of 2005. On the fiscal front, the deficit target of 0.2% of GDP in 2005 will be easily met, thanks to higher-than-projected oil revenues. The draft budget for 2006 targets only a moderate consolidation, as lower oil revenues are assumed. A revenue-enhancing tax reform is needed to address spending needs while reducing the vulnerability of public finances to oil price volatility.

Mexico: Demand, output and prices

	2002	2003	2004	2005	2006	2007
	Current prices MXN billion	Percentage changes, volume (1993 prices)				
Private consumption	4 326.5	2.3	5.5	4.0	4.2	4.0
Government consumption	759.9	0.8	-1.2	0.2	1.2	0.2
Gross fixed capital formation	1 205.9	0.4	7.5	6.9	5.9	5.0
Final domestic demand	6 292.3	1.8	5.3	4.2	4.3	3.9
Stockbuilding ¹	91.7	-1.0	-1.1	-0.2	0.1	0.0
Total domestic demand	6 384.0	0.7	4.1	4.0	4.4	3.8
Exports of goods and services	1 678.4	2.7	11.5	5.2	7.0	7.0
Imports of goods and services	1 794.9	0.7	10.2	7.7	7.9	7.4
Net exports ¹	- 116.6	0.7	0.2	-1.1	-0.6	-0.5
GDP at market prices	6 267.5	1.4	4.4	3.0	3.9	3.5
GDP deflator	—	8.5	6.1	4.7	3.7	3.1
<i>Memorandum items</i>						
Consumer price index	—	4.5	4.7	4.0	3.5	3.3
Private consumption deflator	—	6.9	4.7	4.5	3.7	3.3
Unemployment rate ²	—	2.5	3.0	3.6	3.4	3.4
Current account balance ³	—	-1.3	-1.1	-0.9	-1.1	-1.4

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

2. Based on National Employment Survey.

3. As a percentage of GDP.

Source: OECD Economic Outlook 78 database.